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Our Economy & the World

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Key Global Developments

Trump's Policies Could Pressure Gulf States due to the Peg to the USD: Moody's

Argaam

US President-elect Donald Trump's proposed economic policies could put GCC economies with currencies pegged to the US dollar under pressure, Mark Zandi, chief economist at Moody's Analytics, told CNBC Arabia.

The US Federal Reserve will raise interest rates at a higher pace, which will make it more difficult for countries like the Gulf States to manage the currency peg. Speculators believe the peg will end as managing the peg would become harder.

He added that pegging currencies to the dollar was useful for the GCC economies because it gave stability to the financial system, banks and the economy, in general. Pegging the local currency to the dollar is a good policy in the long term, he noted.

Zandi concluded by hoping that the US interest rates would not rise rapidly, making it difficult to maintain this peg to the dollar. He stressed that the situation will be hard, but politicians should maintain this peg.

Saudi Arabia has had a fixed peg to the dollar since 1986 while the United Arab Emirates started pegging its currency to the dollar in 1997 (1$ = 3.67 dirhams).

Trump Transition Memo: Trade Reform Begins Day 1

CNN

President-elect Donald Trump will begin the process of reshaping America's trade policy on Day 1 of his administration, according to a memo drafted by his transition team obtained by CNN.
The document lays out the skeleton of Trump's trade policy for the first 200 days of his presidency, focusing on a set of principles including renegotiating or withdrawing from the North American Free Trade Agreement -- a frequent promise Trump made on the campaign trail.

The memo itself notes that plenty could change before Trump starts his presidency on January 20, 2017, calling the contents "for discussion purposes only." But the draft memo reveals what the Trump transition team has developed as a blueprint for Trump's administration based on its pre-election work and Trump's own campaign promises.

"The Trump trade plan breaks with the globalist wings of both the Republican and Democratic parties," the document notes. "The Trump administration will reverse decades of conciliatory trade policy. New trade agreements will be negotiated that provide for the interests of US workers and companies first."

The 200-day plan is built around five main principles, plus an extra plank on manufacturing jobs. First is renegotiating or withdrawing from NAFTA, second is stopping the Trans-Pacific Partnership deal, third is stopping "unfair imports," fourth is ending "unfair trade practices," and fifth is pursuing bilateral trade deals.

The final focus, to "retain and return manufacturing jobs," focuses on lowering the business tax rate and eliminating regulations on businesses and restrictions on domestic energy.

Natural Disasters Cost $520bn in Losses Every Year, World Bank

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The impact of extreme natural disasters is equivalent to a global $520 billion loss in annual consumption, and forces some 26 million people into poverty each year, a new report from the World Bank reveals.

The report developed in collaboration with the Global Facility for Disaster Reduction and Recovery (GFDRR) said, “Severe climate shocks threaten to roll back decades of progress against poverty.” World Bank Group President Jim Yong Kim said that “Storms, floods, and droughts have dire human and economic consequences.

The report, *Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters*, warns that the combined human and economic impacts of extreme weather on poverty are far more devastating than previously understood.

The report covered 117 countries worldwide that were affected at the human and economic levels. The report estimates that impact on well-being in these countries is equivalent to consumption losses of about $520 billion a year. This outstrips all other estimates by as much as 60 percent.

Moody's Expects Global Growth to Climb to About 3% in 2017

Mubasher

Moody's expected global growth to stabilize next year as performance of the US and emerging market economies improve.

The credit rating agency said in a memorandum that global GDP may climb to about 3 percent in 2017 and in 2018 compared to 2.6 percent in 2016.

Moody’s said that India is expected to record the fastest economic growth among major advanced and emerging economies next year, while Italy, Japan and Brazil will have the weakest expansions.

The US economy is forecasted to expand by 2.2 percent in 2017 from around 1.6 percent this year, backed by consumer spending even as business investment remains weak.

The IMF forecasted the world economy to grow by 3.1 percent this year before slightly recovering in 2017 to record 3.4 percent.

Dollar Bulls have Room to Run on Trump Win, Euro could Reach Parity with Dollar

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The surprise of Trump's victory of the US presidential election brought back the bet that the recent global developments and fluctuations on the political and economic levels may push the euro towards parity with the dollar for the first time since 2002.

According to Bloomberg data, about 45 percent of dealers believe that the euro will fall to the one dollar level by the end of 2017, a percentage that had nearly doubled from its level a week before.

These expectations are supported by US president-elect pledges to increase spending on infrastructure and cut taxes, which means, of course, a rise in inflation and economic growth, prompting the Federal Reserve toward raising interest rates soon, and at a faster pace.

This feeling sent the dollar index to its strongest level since February, while the euro slipped to around $1.07, its lowest level this year against the US currency.

On its part, Deutsche Bank noted that the US election results are enough to shake the European single currency and push it into the level of less than one dollar in 2017.

KAMCO: Global Oil Investments Fall by USD 80 bln in '16

KUNA

World oil investments have continued to decline in 2016 after falling in 2015. Upstream investments in exploration and production declined by almost USD 130 billion during 2015 and are expected to fall by another USD 80 billion during 2016, showed a KAMCO report.

Oil prices reacted sharply to regional political and economic developments in October, and average OPEC oil price for November-16 plunged 11 percent by the end of last week. This comes after average monthly oil prices increased 11.6 percent during October compared to September on hopes of production cuts, the report said.

The impact of US presidential elections on oil market was also minimal although the policies that the new government decides related to tax breaks to oil and gas companies and drilling activity would have a lasting impact on the industry and even put pressure on oil producers that are reluctant to join the production cuts, it added

The oil production of OPEC members reached new record levels in October, firing more doubts about the anticipated production agreement between members and non-members of the OPEC.

Total world oil demand growth for 2016 was lowered marginally by 10,000 barrels per day to 1.23 million per day and is expected to average at 94.4 million per day for the year, the report indicated.

Non-OPEC supply expectations for 2016 was lowered by 0.1 million bpd as compared to the previous month and is now expected to contract by 0.78 million bpd to reach year-end supply of 56.2 million bpd, it said.

German Economy Slows More than Expected in Q3

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According to primary data, the German economy slowed more than forecasted in the third quarter of the year, reflecting fragile recovery in the Eurozone.

Germany's Federal Statistics Office said Europe's largest economy grew by 0.2 percent between July and September, which is less than analysts' forecasts of 0.3 percent, after an expansion of 0.4 percent in the three months ended in June.

"The development of foreign trade had a downward effect on growth," said Germany's Federal Statistics Office.

Exports were slightly down while imports were slightly up compared with the second quarter of 2016.

Unrevised data showed that the economy grew by 1.5 percent year on year during the third quarter, i.e., less than analysts' forecasts of 1.8 percent.

Implications for Egypt:

Recent global economic volatility points to escalating pressures on global economic growth opportunities. This requires Egypt to enhance measures taken to increase economic growth, such as the promotion of domestic production, especially among SMEs, in light of the expected recession in Britain and shifts in movement of global investment flows worldwide as well as the emergence of an escalating trade war between the US and China amid slow global economic growth. Against this backdrop, Egypt has to move more quickly to encourage domestic consumption while supporting its presence in the Arab and African regional markets in order to capture larger market shares in the medium term and to benefit from trade agreements with these countries.

Therefore, Egypt has to take more robust actions through economic reform packages that focus on reducing government expenditure and rationalizing consumption, encouraging certain productive sectors, and revitalizing marginalized investment economic sectors. These actions could help reduce the deficit and improve the economy.

Attention should be also be given to the Gulf-Egyptian economic and commercial relations, which are strategic. This requires developing the concept of integration and going beyond the status quo. The establishment of joint economic zones, expanding the scope of bilateral trade agreements and the introduction of new sectors therein such as services, and the establishment of joint industries that are directed to import substitution and dependent on Gulf-Egyptian raw materials will be a basis for developing trade and economic relations over the coming period.

From the International Press

Development of Financing Channels: An Engine for Real Estate Market Recovery in the Region

Al-Hayat

The banking sector is one of the most important factors that support the development of real estate markets in the GCC and the region. It is the main engine for the sector's recovery, as it contributes to building diverse and strong economies for the Gulf countries, making them globally competitive, and supports domestic output. Al Mazaya Holding stressed in its weekly report that the expansion of real estate markets is linked to the development of financing channels. The UAE real estate market is witnessing remarkable growth due to increased support from the UAE banking system, and to a series of smooth laws and modern regulations, on which the country depends under flourishing or declining conditions.

According to the report, the real-estate mortgage market in the UAE is witnessing strong competition to attract more borrowers. Price levels and interest rates in the real estate mortgage markets remained within last year's levels. Funding ratios ranged between 3 and 4 percent, which encouraged various segments of society towards ownership, whether for housing or investment.

The report considered mortgage finance in the UAE as one of the most important demand element due to the diversity of size and location of real estate units that cater to the requirements of the local community and foreign investors. It stressed the need to revisit real-estate financing terms and to respond to market indicators and the capabilities of applicants. Real estate prices allow a good opportunity for financing and expansion in the granting of mortgage facilities, despite high indicators of default of many segments, owners and investors in the future.

According to the report, Qatar has been racing to provide more real estate products to suit local demand, and attract more foreign investments. The data show high competition between banks to attract large numbers of residential mortgage applicants. Granted real estate loans exceeded the ceiling of 100 billion Qatari riyals end of 2015, reflecting the role that various funding channels play in financing projects and individuals and encouraging them to buy property.

The report did not overlook the role of Qatari banks in providing the necessary liquidity for the government and real estate developers to continue the development of infrastructure to maintain the high rate of operation of the real estate sector until the World Cup.

As for the Saudi real estate market Arabia, Al-Mazaya Holding said that it is facing significant challenges and competition in light of government plans and strategies aimed at availing more channels of support and funding to find appropriate solutions to housing problems. Real estate mortgage terms include providing 15 percent of the total loan value, which is the lowest among the GCC countries, compared with the bank financing in Kuwait that amounts to up to 80 percent and 70 percent in Qatar, hence increasing the ability of those with limited income to buy property. The company added that the total volume of activity in the real estate market exceeded 102 billion riyals ($27.5 billion) at the end of 2015, an increase of 8 percent from 2014.

The report stressed the need to cope with the development of new financing products in the real estate projects, and demand on real estate sector locally, regionally and globally, as well as the need to find multiple ways of financing that fit the banking market. According to the report, this is important in increasing funding and expand the customer base, as well as in providing a variety of real estate products to contribute to increasing demand and continuation of real estate projects, hence maintaining the pace of real estate activity at high investment levels.

According to the report, Islamic finance contributes positively to trade, real estate and investment in general, as it limits terms with a view to facilitating mortgage loans. Islamic banks are among the most sought after banks for low-income housing at it complies with traditions and Islamic principles.

Al Mazaya Holding predicts increased real estate financing through Islamic banks, which would contribute to community development and improving people's lives. Indicators of future growth of the Islamic finance indicate that it might even exceed growth achieved by traditional commercial banks, despite the financial and economic challenges faced by the major economies, which will affect financial dynamics in general. Lower oil prices will have a significant impact on the growth achieved by all financial sectors and channels.

The report concluded by stressing the need to provide a common framework that brings together real estate stakeholders, including developers, banks, and government. The aim is to create multiple channels to ensure the provision of adequate sources of financing at competitive and affordable rates.

The report noted that fluctuations in the oil market has had a significant impact on finance and investment dynamics in the real estate market. However, innovative solutions by specialized channels of finance play a big role in securing the pace of buying and selling, and trading in real estate products of all kinds.

Implications for Egypt:

The Egyptian real estate sector is now notably active, especially with respect to the purchase rate of new units. The sector is recuperating following a significant decline of demand over the past years. The market is active due to renewed demand for new housing units, as there is half a million marriages annually in Egypt in addition to carried forward demand. Demand for housing units includes all unit levels, i.e., low-cost housing, limited income housing, middle-income housing and even luxury housing, whose demand, though less, is notably significant with the increasing desire to invest in real estate following the depreciation of the Egyptian pound vis-a-vis foreign currencies.

All market indicators confirm the return of consumer confidence in the Egyptian real estate market, as evidenced by increased purchasing of newly offered housing units, in addition to the return of demand and the notable rise in real estate prices, particularly land. Obviously, this year will see a surge in investor demand in the real estate market, which requires the government to provide more land and grant permits quickly to avoid significant price increases, and to ensure the sustainability of ongoing projects. It is also important to speed up the issuance of the federation of real estate developers' act to regulate the sector.

Also, real estate sector growth has come at the expense of investment in other sectors, which points out the need to revitalize sectors such as manufacturing by removing the related barriers. Important measures include the issuance of a new law on industrial licensing, resolving land allocation problems, in addition to raising the capacity of other economic sectors to activate the Egyptian economy over the coming period by directing domestic savings and investments to sectors with added value and productivity, rather than stocks of value.

Special Analysis

A Little-Noticed Fact about Trade: It's No Longer Rising

New York Times

The constant flow of goods from Asia to the United States was briefly interrupted last month after Hanjin, the South Korean shipping line, filed for bankruptcy, stranding several dozen of its cargo ships on the high seas.

It was a moment that made literal the stagnation of globalization.

The growth of trade among nations is among the most consequential and controversial economic developments of recent decades. Yet despite the noisy debates, which have reached new heights during this presidential campaign, it is a little-noticed fact that trade is no longer rising. The volume of global trade was flat in the first quarter of 2016, then fell by 0.8 percent in the second quarter, according to statisticians in the Netherlands, which happens to keep the best data.

The United States is no exception to the broader trend. The total value of American imports and exports fell by more than $200 billion last year. Through the first nine months of 2016, trade fell by an additional $470 billion.

It is the first time since World War II that trade with other nations has declined during a period of economic growth.

Sluggish global economic growth is both a cause and a result of the slowdown. In better times, prosperity increased trade and trade increased prosperity. Now the wheel is turning in the opposite direction. Reduced consumption and investment are dragging on trade, which is slowing growth.

But there are also signs that the slowdown is becoming structural. Developed nations appear to be backing away from globalization.

The World Trade Organization's most recent round of global trade talks ended in failure last year. The Trans-Pacific Partnership, an attempt to forge a regional agreement among Pacific Rim nations, also is foundering. It is opposed by both major-party American presidential candidates. Meanwhile, new barriers are rising. Britain is leaving the European Union. The World Trade Organization said in July that its members had put in place more than 2,100 new restrictions on trade since 2008.

"Curbing free trade would be stalling an engine that has brought unprecedented welfare gains around the world over many decades," Christine Lagarde, managing director of the International Monetary Fund, wrote in a recent call for nations to renew their commitment to trade.

Against the tide, the European Union and Canada signed a new trade deal last Sunday.

It may be hard, however, to muster public enthusiasm in the United States and other developed nations. The benefits of globalization have accrued disproportionately to the wealthy, while the costs have fallen on displaced workers, and governments have failed to ease their pain.

The Walmart revolution is over. During the 1990s, global trade grew more than twice as fast as the global economy. Europe united. China became a factory town. Tariffs came down. Transportation costs plummeted. It was the Walmart Era.

But those changes have played out. Europe is fraying around the edges; low tariffs and transportation costs cannot get much lower. And China's role in the global economy is changing. The country is making more of what it consumes, and consuming more of what it makes. In addition, China's maturing industrial sector increasingly makes its own parts. The International Monetary Fund reported last year that the share of imported components in products "Made in China" has fallen to 35 percent from 60 percent in the 1990s.

The result: The I.M.F. study calculated that a 1 percent increase in global growth increased trade volumes by 2.5 percent in the 1990s, while in recent years, the same growth has increased trade by just 0.7 percent.

Hanjin, like other big shipping companies, bet that global trade would continue to expand rapidly. In 2009, the world's cargo lines had enough room to carry 12.1 million of the standardized shipping containers that have played a crucial, if quiet, role in the rise of global trade. By last year, they had room for 19.9 million—much of it unneeded.

India is not China redux. Most trade flows among developed nations. The McKinsey Global Institute calculates that 15 countries account for roughly 63 percent of the global traffic in goods and services, and for an even larger share of financial investment.

China joined this club the old-fashioned way: It used factories to build a middle class. But the automation of factory work is making it harder for other nations to follow. Dani Rodrik, a Harvard economist, calculates that manufacturing employment in India and other developing nations has already peaked, a phenomenon he calls premature deindustrialization.

The weakness of the global economy is exacerbating the trend. Infrastructure investment by multinational corporations declined for the third straight year in 2015, according to the United Nations. It predicts a further decline this year. But even if growth rebounds, automation reduces the incentives to invest in the low-labor-cost developing world, and it reduces the benefits of such investments for the residents of developing countries.

The political reaction is global, too. The economist Branko Milanovic published a chart in 2012 that is sometimes called the elephant chart, because there is a certain resemblance. It shows real incomes rose significantly for most of the world's population between 1988 and 2008, but not for most residents of the United States and other developed countries.

The chart is often presented as a depiction of the consequences of globalization. The reality is more complicated, but perception is undeniable. Voters in developed nations increasingly view themselves as the victims of trade with the developing world—and a backlash is brewing.

Donald J. Trump's presidential campaign is an obvious manifestation, as is Hillary Clinton's backing off from her support of the Trans-Pacific Partnership trade deal. A study published in April found that voters in congressional districts hit hardest by job losses are more likely to reject moderate candidates, turning instead to candidates who take more extreme positions.

Economic stagnation is turning European voters against trade, too.

Professor Rodrik said that proponents of free trade were guilty of overstating the benefits and understating the costs. "Because they failed to provide those distinctions and caveats, now trade gets tarred with all kinds of ills even when it's not deserved," he said. "If the demagogues and nativists making nonsensical claims about trade are getting a hearing, it is trade's cheerleaders that deserve some of the blame."

Implications for Egypt:

These global developments affect chances to increase the fair volume of trade worldwide, which requires Egypt to pay particular attention, and to take serious actions in this respect. However, Egypt must take into account that many measures still increase the cost of foreign trade transactions, especially in relation to exports. It is important to address these measures to stimulate export growth, such as facilitating licensing, customs clearance procedures and taxation, as well as reducing the cost of financing transactions and the number of required procedures and approvals.

In light of the recent actions taken by the government or the Central Bank of Egypt, it has become necessary to conduct a thorough sensitivity analysis of the effects of changes in the exchange rate on export indicators and on the cost of imports, which have yet to appear in full. It is likely that recent changes in the exchange rate will improve Egypt's competitiveness. But the conduct of a sensitivity analysis of the detailed impact of changes in the value of the US dollar on exports and imports from the different sectors will facilitate developing policies that aim to increase exports and reduce imports.

It is also necessary to finalize and to start implementing a strategy for industrial development. The focus of the export development strategy so far has been on market access procedures and giving incentives for export development, whether through the export refund program or changing the exchange rate without dealing with the larger challenge of production impediments to exports.

Global Financial Market Performance

Reuters/ Argaam

Chinese stock indices fell at the close of Friday trading, following release of data that showed a slowdown in the growth of new house prices after the authorities enacted further restrictions on real estate purchases, fearing a bubble in the sector.

Chinese Bureau of Statistics data showed a rise of 1.1 percent in average new house prices in October compared to 1.8 percent in September.

This comes after several Chinese cities imposed restrictions on home purchases and the granting of mortgages to control unit prices that have increased significantly in the big cities recently.

At the end of trading, the "Shanghai" Composite Index fell 0.5 percent to 3,192 points, registering a weekly loss of 0.1 percent after recording gains over the past five weeks.

The Japanese stock indices rose at the close of trading, taking advantage of the decline in the yen's value against the dollar, which boosted stock gains, especially exporting companies.

This comes amid growing prospects of raising US interest rates, as the Chair of the Federal Reserve Board, Janet Yellen, said on Thursday that raising the rate may soon happen to coincide with the release of data showing a decline in jobless applicants in the US to their lowest levels in 43 years to 235,000 applications**.**

At the end of trading, the Japanese "Nikki" index rose by 0.6 percent to 17,967 points, increasing its weekly gains to 3.4 percent. The "TOPIX" index rose 0.4 percent to 1,428 points, recording 3.6 percent in weekly gains.

US stocks also fell marginally during Friday trading amid a large-scale rise in the dollar against most major currencies, but the major indices posted gains for the second week in a row.

The Dow Jones Industrial Average fell 36 points to 18,868 points, the Nasdaq index declined by 12.5 points to 5,321.5 points, while the S & P 500 benchmark fell 5 points to 2,182 points**.**

On a weekly level, the "Dow Jones" index was up 0.2 percent, while "Nasdaq" rose by 1.6 percent, and the broader "S & P 500" recorded a weekly gain of 0.8 percent.

In European markets, "Stoxx Europe 600" declined by 0.3 percent, or 1.2 points to 339.4 points, but achieved a weekly gain of 0.6 percent.

British "FTSE 100" index fell by 19 points to 6,775.7 points, the German "DAX" index fell by 21 points to 10,664.5 points, and the French "CAC" index declined by 23 points to 4,504 points**.**

On the other hand, gold futures for December delivery settled down 0.7 percent or $8.20 to $1208.70 an ounce, the lowest close since February. The yellow metal scored a weekly loss of 1.3 percent.

In the oil markets, the US "NYMEX" rose 0.6 percent or 27 cents to close at $45.69 a barrel, posting weekly gains of 5.3 percent. The "Brent" index rose by 0.8 percent or 37 cents to close at $46.86 a barrel and made weekly gains of 4.7 percent after four weeks of losses.

In the meantime, the dollar index, which measures its performance against a basket of major currencies, rose by 0.4 percent to 101.3 points, the highest level since April 2003. The US currency posted gains of about 4 percent over the last ten sessions, causing pressure on commodities and stocks.

The dollar received support from statements of the Chair of the Federal Reserve Board, Janet Yellen, that the central bank may raise interest rates relatively soon.

Implications for Egypt:

The Egyptian stock exchange continued to perform strongly for the third week in a row, posting record gains during the current week amid optimism among investors following the CBE's liberalization of the exchange rate, prompting investors to increase purchases, with expectations that the upcoming period will witness large foreign currency inflows. Add to this the IMF's approval of Egypt's $12 billion loan. Market capitalization of listed corporate shares gained LE 24.7 billion, closing at 544.1 compared to 519.4 last week, an increase of 4.7 percent.

The above helped the Egyptian Stock Exchange overcome global financial market volatility given market attempts to figure out the consequences of Trump's economic policy, especially Asian markets, which are particularly concerned about the future of trade relations between China and the US under a Republican president.